Advising the Congress on Medicare issues

Delivery System Integration

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MEDPAC

Problems in Traditional Medicare

Price accuracy and equity

- High costs and rapid cost growth
- High utilization of services (esp. costly services) and rapid volume growth

Information for patients and providers

- No information on what works
- No transparency on financial relationships that influence practice patterns

Quality and coordination

- No financial incentive for coordination
- No penalties for poor quality or rewards for good quality

Directions for Delivery System Reform – Promoting Integration

- Medical home & payments for primary care
- Pay for performance
- Gainsharing
- Measuring physician resource use
- Target readmissions
- Bundled payments
- Accountable Care Organizations

Medicare spending on hospital readmissions

- About 18% of Medicare hospital admissions are readmitted within 30 days of discharge
  - Readmissions are associated with $15 billion in Medicare spending annually
  - Not all readmissions are avoidable, but some are → 13.3% of admissions result in potentially preventable readmissions
- Significant variation in spending on readmissions among hospitals

MedPAC recommendations on payment policy for readmissions

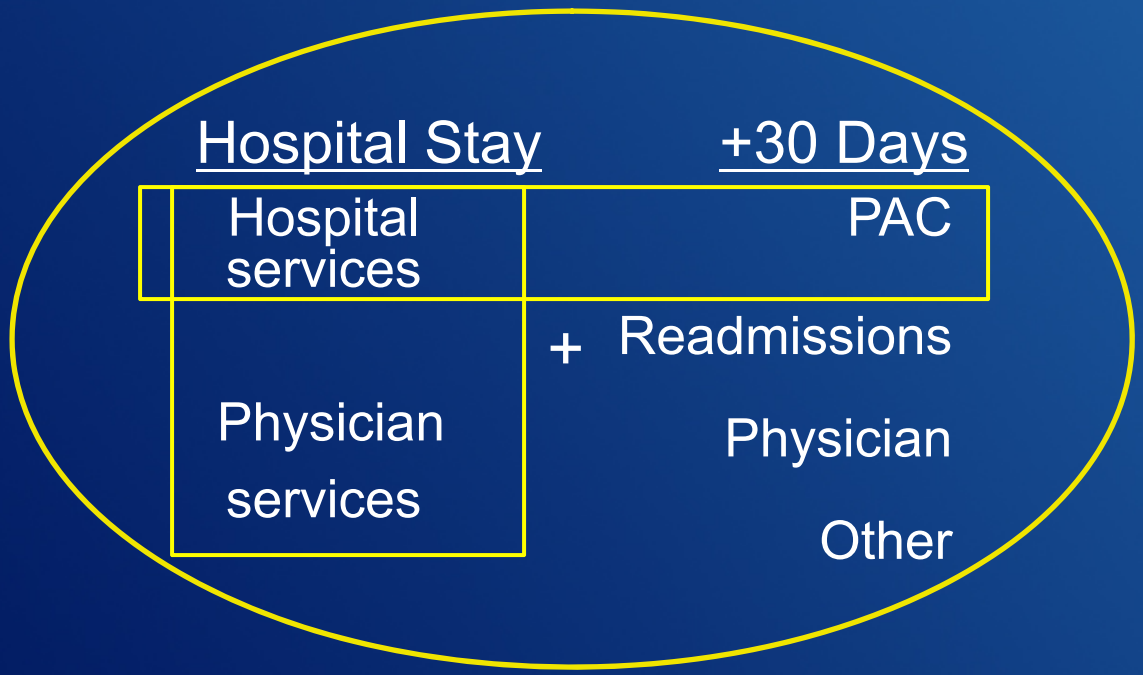
- Inform providers of their risk-adjusted readmission rates; later, publicly share this information
- Reduce payments to hospitals with relatively high readmission rates for select conditions
- Allow shared accountability (gainsharing) between physicians and hospitals

Source: MedPAC, *Reforming the Delivery System*, June 2008.

MedPAC recommendation on bundling payment

- MedPAC recommended that the Secretary conduct a pilot to test the feasibility of bundled payment around a hospitalization episode
  - Select conditions
  - Voluntary
  - Budget neutral

Concept of a bundled payment



Expected *episode* resource use

Standardized "episode" amount is adjusted by:

- Expected resource use of patients with different conditions and severity levels
- Input prices (labor and non-labor)

Variations on bundled payment: virtual bundling

Admission	+30 days
▪Hospital services	▪Readmissions
▪Physician services	▪Post-acute care services
	▪Physician services
	▪ Other services

- "Virtual bundling" – Continue to pay FFS, but adjust providers' payment based on providers' relative efficiency (resource use and quality) across an episode of care

ACO concept

- Physicians and a hospital have joint responsibility for the quality and cost of care delivered to a population of patients
- Bonus for high quality and low cost growth
  - Bonus is a percentage of FFS payments
  - High quality is meeting benchmarks (e.g., mortality, readmissions)
  - Cost growth is the rate of increase in overall Medicare spending per beneficiary assigned to ACO
- Possible penalty for low quality and high cost growth
- ACO approach would not penalize historically efficient areas

Why Medicare may want ACOs

- Medicare needs mechanisms for controlling cost growth and improving quality
  - ACOs could help control volume growth by tying bonuses and penalties to overall Medicare spending
  - ACOs could help improve quality by tying bonuses and penalties to quality metrics
- Policy objectives
  - Delivery system reform; improve care coordination and collaboration
  - Tie provider payments to quality and resource use
  - Achieve a sustainable Medicare spending growth rate
  - Reduce regional variation

Potential method of setting ACO-specific Medicare spending targets

		ACO spending		
	National average	Low	Average	High
Base spending	$10,000	$7,000	$10,000	$12,000
$ target growth	500	500	500	500
Target spending	$10,500	$7,500	$10,500	$12,500
% target growth	5.0%	6.3%	5.0%	4.2%

Assumption: Wage index = 1, risk score = 1

Two possible ACO paths

Voluntary ACO

- Would need to be attractive to providers
- Most designs are bonus only (e.g. Fisher, CBO)
- Providers have to be organized to participate
- Weaker volume incentive → Lower FFS rate

Mandatory ACO

- Poor quality and rapid spending growth can be penalized
- Incentive to organize
- Stronger volume incentive → Higher FFS rate